City of Dallas, Texas
Written Testimony for the Record

Committee on Ways & Means
United States House of Representative

Tax Provisions Affecting State & Local Governments
March 19, 2013

The City of Dallas appreciates the opportunity to submit testimony for the record in response to the Committee's hearing: Tax Provisions Affecting State & Local Governments. The City especially appreciates the opportunity to address comments that Scott Hodge, President of the Tax Foundation, made about the City of Dallas during his appearance before the Committee. (If the Committee is looking for tax expenditures to eliminate, the City respectfully suggests that the Committee need look no further than the tax exempt status enjoyed by the Tax Foundation. Indeed, we would be eager to put the value of what our tax exemption produces up against the value of what the Tax Foundation's tax exemption produces.)

With all due respect to Mr. Hodge, the elected officials of the City of Dallas are never "crying wolf" when we bring issues to the attention of our congressional delegation and congressional committees. The City Council debates and adopts a detailed Federal Legislative Program at the beginning of each Congress. City staff and the City Council take this process very seriously and devote considerable time and attention to crafting a document that reflects real concerns about federal legislation, policies and proposals that would have serious impacts on the City and its citizens.

In the case of proposal to eliminate or cap the tax exemption for municipal bonds, we cannot exaggerate the seriousness or reality of our concerns. According to every analysis we have seen, capping or eliminating the tax exemption for municipal bonds would significantly increase the City's borrowing costs. A Government Finance Officers Association study found that in 2012 alone, a 28 percent cap would have raised our borrowing costs by 14.7 percent or $27 million; the absence of the tax exemption would have raised our 2012 borrowing costs by 42 percent or $78 million. Simply put, without the tax exemption, we would be faced with the choice of delaying much-needed core infrastructure improvements or passing on the costs to our taxpayers and ratepayers. (*In the case of water and wastewater improvements designed to meet increasingly stringent federal mandates, we would have no choice but to pass higher costs on to our ratepayers.*)

The City takes strong exception to Mr. Hodge's allegation the municipal bond tax exemption has encouraged the City of Dallas to spend beyond its means or to finance frivolous or questionable projects. The City of Dallas uses municipal bonds to finance the core municipal infrastructure that is the foundation of a modern economy and is vital to public health and safety: water, sewer, streets, flood control, storm sewer, fire stations, police stations and parks. Despite Mr. Hodge's belief that our nation suffers from a surfeit of infrastructure investment, local elected officials operating at the ground level in the real world know the opposite is true. Our nation has significant infrastructure needs and they are largely being met by state and local governments using municipal bonds.

Dallas voters have approved four major bond programs since the late 1990s to improve the City's infrastructure and boost economic growth. Most recently, Dallas voters in November overwhelmingly approved (80 percent!) a $642 million "Back to Basics" bond package that will make critical investments in storm drains and storm pumps; streets and sidewalks, and in south Dallas economic development. Despite Mr. Hodge's misgivings, Dallas citizens clearly have strong trust in the City of Dallas' ability to make prudent and responsible investments in core public infrastructure. We do not take this responsibility lightly. Dallas voters are not alone in this trust. The City of Dallas is proud of its strong bond rating: Aa1 from Moody's and AA+ from Standard and Poor's. These ratings reflect our sound management and our ability to consistently balance our budget while maintaining basic services and a strong foundation for economic growth.

The City of Dallas operates in the real world where changes to the tax code would have a real impact on real people. Intellectual discussions about the inefficiencies of tax exempt bonds may have some appeal in Washington think tanks, but so far none of the proponents of eliminating or capping the exemption offer a realistic replacement to pay for basic infrastructure investments in a manner that does not burden local taxpayers and utility ratepayers with tax and rate increases.

Tax credit bonds and direct subsidy bonds are a good complement to traditional tax exempt municipal bonds, but they would be a poor replacement for many reasons:

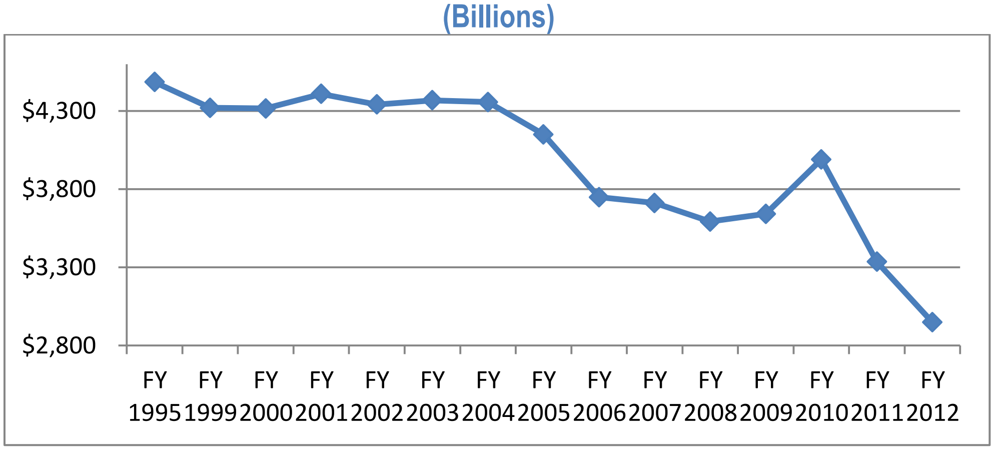
- They have a narrower market than traditional municipal bonds;
- Programs to date have been far too small to meet infrastructure needs;

- Their underwriting costs are more expensive than traditional municipal bonds, making them a poor choice for small issuers; and
- In the case of direct subsidy bonds, sequestration has eaten into the subsidy, creating mid-year budget difficulties for many issuers, including the City of Dallas (sequestration has shown that the federal subsidy provided by these bonds cannot be relied upon, injecting uncertainty into the marketplace).

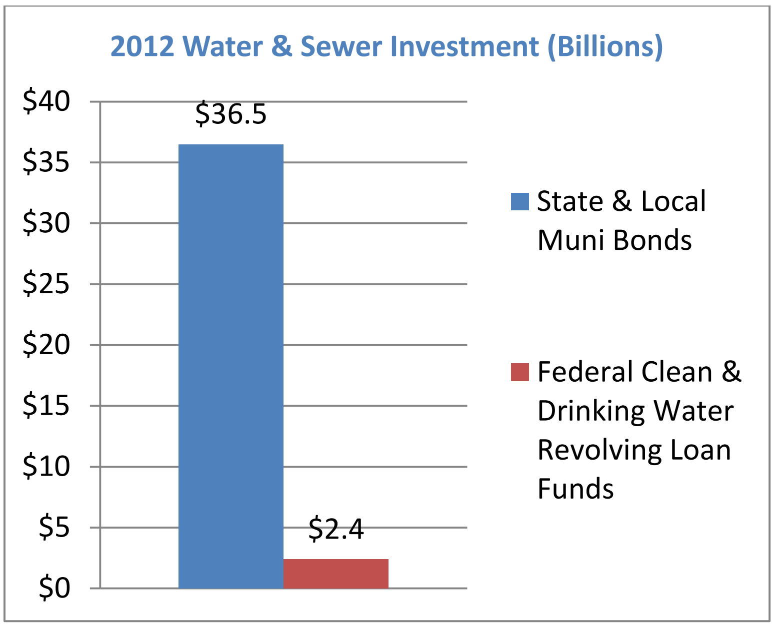
While the City appreciates the federal grants we receive, they cannot serve as a substitute for tax-exempt municipal bonds and fall far short of meeting core local infrastructure needs. The City is especially troubled that proposals to eliminate or cap the tax exemption for municipal bonds are gaining steam at the same time that federal assistance to local governments for infrastructure has been drastically cut. Given the downward funding trend and outright elimination of many core state and local government grant programs over the past decade, *capping or eliminating the tax exemption for municipal bonds would effectively signal federal divestment in our nation's infrastructure.*

One need look no further than the Community Development Block Grant, which states and cities use to upgrade infrastructure in low- and moderate-income neighborhoods, for evidence of how federal grants for infrastructure have dried up. Congress and successive Administrations have cut funding for this vital block grant by 34 percent since FY 1995. These cuts are even more severe when measured for inflation and population increase: *Congress would have to increase funding by 270 percent to bring funding back to where it was in 1978!*

CDBG Funding FY 1995-FY 2012 (Billions)



Similarly, federal funding for water and wastewater infrastructure has fallen from over 70 percent of such investments in the 1970's to a negligible share today. The federal funding that remains available for water and wastewater infrastructure investments comes mostly in the form of loans and is accompanied by so much paperwork and red tape that most utilities prefer to go to the bond market to finance improvements. This decline has been accompanied by increasingly stringent clean water mandates, placing the burden of achieving our nation's clean water goals almost entirely on cities and their utility ratepayers.



Tax exempt municipal bonds are a time-tested and effective financing tool that local governments rely on to make investments in public infrastructure. In an era of ever-increasing federal mandates on local governments and increasingly scarce federal grants, capping or removing the tax exemption for municipal bonds would make little sense.

The City of Dallas urges the Committee to oppose any proposal to do so.